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Cap. 3

STATEMENT OF
SECRETARY BOB BERGLAND
U.S. DEPARTMENT OF AGRICULTURE
before the
COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

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I am pleased to be back before the House Agriculture Committee to testify on our proposals to improve the operations of the food stamp program. I know that this Committee has a deep interest in food stamps, and has devoted considerable attention to food stamp issues.

As my former colleagues on the Committee know, I believe that the food stamp program stands in need of serious reform. It is far too complicated and cumbersome. The red tape involved in certifying applicants leads to delays in getting stamps to those who need assistance and errors that provide stamps to some who do not.

The program needs to be streamlined, overhauled, and tightened up. It also needs to be made more accessible to those in need. At present, some persons who may not need stamps are getting them, while others who are in need of food stamp assistance are not being reached by the program.

I come here before you today with a major reform proposal. It is designed to tighten up the program, to eliminate or reduce benefits to the households with the highest incomes, to reduce errors, and to curb possibilities for abuse. In addition, this proposal will vastly simplify and streamline the program. Finally, our proposal is designed to increase access to the program by those most in need.

MEASURES TO TIGHTEN THE PROGRAM

1. Our first measure to tighten the program would be to lower the net income eligibility limits for this program to the poverty line -- which is currently set at \$5,500 a year for a family of four. This would entail a reduction in the net income limits of over \$1,000 a year for families of four.

2. We would also place firm gross income limits on the program by replacing the many complicated itemized deductions in the current program with two simple standard deductions -- a deduction of \$80 for all households, plus a deduction for working families in the amount of 20% of earned income to compensate for taxes, other mandatory deductions from salary, and work expenses. If our bill were in effect today, four-person families who have no earned income would be ineligible if their incomes were over \$537 a month, or \$6,450 a year. Four-person families who derive all their income from employment -- and who have to pay taxes and work expenses -- would be ineligible if their gross incomes exceeded \$673 a month, or \$8,075 a year.

These income limits will eliminate about 1½ million persons from the food stamp program -- the participants with the highest income.

3. In addition, we would reduce benefits for most of those households with gross incomes above the poverty line who remain eligible for stamps. As a result of the combined effect of the removal of the highest income households and the reduction of benefits for others, 98% of all benefit dollars going to currently participating households with gross incomes above 1½ times the poverty line would be cut, and over 85% of all benefits going to current households with gross incomes between 1¼ and 1½ of the poverty line would be cut.

Dollars going to currently participating households with incomes between the poverty line and $1\frac{1}{4}$ times the poverty line would be lowered by more than one-fourth. But the benefits going to the households now in the program with gross incomes below the poverty line would remain largely unchanged.

Let me explain this effect a different way. Nearly all households with gross incomes above $1\frac{1}{2}$ times the poverty line would simply be eliminated from the program, as would nearly 80% of the households with gross incomes between $1\frac{1}{4}$ and $1\frac{1}{2}$ times the poverty level. A much smaller number of households with gross incomes between the poverty line and $1\frac{1}{4}$ times the poverty line would be eliminated -- but nearly half of the households in this income bracket would suffer benefit losses. No one would be eliminated below the poverty line.

4. We would also propose to eliminate the "categorical eligibility" that welfare and SSI recipients now enjoy. Currently, these households are automatically eligible for food stamps -- regardless of the level of their income and resources. We would require that they meet the same income and resource limits as everyone else -- or else be dropped from the program.

5. We would take a series of actions aimed at providing greater disincentives for households to commit fraud, and greater incentives for federal and state officials to go after fraud. We would write into law a requirement that households found to have committed fraud be disqualified from the program for up to one year. We would provide 75% federal funding for investigations and prosecutions conducted by the states. We would

modify criminal penalties for a number of infractions so that they could be prosecuted before Federal magistrates. Too often today the U. S. Attorneys believe they are too busy to take food stamp fraud cases to the District Courts, and no prosecution at all results.

6. We would also require tougher enforcement and administration by states. We propose that the Department be authorized to establish state staffing standards for proper administration of this program, and to withhold administrative funds from states failing to comply with these standards or otherwise failing to comply with our requirements. In addition, the Justice Department would be authorized to take injunctive action, at our request, against states failing to properly enforce the rules and regulations of this program.

7. We would also tighten up considerably on the emergency food stamp program. This winter there were problems with the emergency program in Buffalo and Florida. We will not tolerate continuation of these problems. Accordingly we would revise the law to eliminate the stipulation in current law that the emergency eligibility standards must be "without regard to income and resources." Our plan is to respond to each emergency by deviating as little as possible from our regular eligibility standards -- and not by discarding these standards wholesale.

8. We would require food stamp recipients who register for work to also engage in job search activity.

9. We would modify the definition of the food stamp household so that various persons living in the same residence could no longer divide into separate food stamp households on the grounds they are separate "economic units."

10. We would remove the authorization of wholesale food concerns to accept food stamps except in cases where the Department determines this to be necessary for effective program operations. The change, made at the recommendation of the Department of Justice, would reduce the number of organizations through whom the stamps circulate.

These are only some of the measures we are proposing to tighten this program. There are a good many others as well, some of which are adopted from last year's House Agriculture Committee bill. Our new proposed legislation, which we will present to the Committee within the next two days so that it can be incorporated as a title of the farm bill, is over 30 pages in length, and in preparing it we scrutinized all aspects of this program's operation.

MEASURES TO SIMPLIFY THE PROGRAM

1. Standard Deductions

As I mentioned previously, the Department is proposing to substitute two basic, simple standard deductions in place of the current itemized deductions. This will greatly simplify administration of the program, and will also reduce errors. About 30% of all errors now stem from errors in determining the proper level of itemized deductions.

In addition, the time now used in calculating itemized deductions can be spent in the more important area of verifying income. This should further reduce errors.

We should note that under our proposal, the standard deduction will be adjusted semi-annually to reflect changes in the Consumer Price Index

for items other than food. This adjustment is an integral part of our standard deduction proposal. We know that itemized deductions have risen over time to reflect increases on heating bills, rent, medical costs etc.

If we eliminate the itemized deductions and replace them with a standard deduction that never changes, we will be squeezing poor people unfairly and making major cutbacks in benefits over time.

We have checked this matter carefully with the Congressional Budget Office. CBO informs us that if we do not provide an adjustment on the standard deduction, our proposal will represent increasing benefit cutbacks in future years. CBO also concludes that the adjustment we have included (which was also incorporated in last year's House Agriculture Committee bill) does not represent an increased cost in future years, relative to its "current services" estimate for future years.

2. The Elimination of the Food Stamp Purchase Requirement

Perhaps even more important than standard deductions in simplifying and streamlining this program and in vastly improving program administration is our proposal to eliminate the food stamp purchase requirement. This is in many ways the cornerstone of the Carter Administration proposal.

Under the current program, households pay anywhere from 0 to 30% of net income for their stamps, with the average household paying 25.6%. The Ford Administration proposed to charge all households 30% of net income, so that a household of four with \$300 net income would pay \$90 for \$166 in stamps. We also propose to calculate benefits as though a 30% purchase price were in effect -- but then to dispense with the cash requirement and simply provide this benefit in stamps. Thus, the household

with \$300 net income would -- instead of paying \$90 for \$166 in stamps as under the past Administration's proposal -- simply be eligible for \$76 in stamps.

We believe such a change is essential to any effort to clean up the administration of this program. Currently we have 17.3 million recipients paying over \$3 billion a year in cash to 15,000 check-cashing firms, banks, post offices, welfare offices, town clerks, churches and even fire stations and corner stores who sell food stamps. The problems involved in controlling the use and flow of the cash are serious. No other federal program involves the collection of so much cash from so many persons through so many private agents. Eliminating the purchase requirement would completely resolve this issue by ending all cash transactions whatsoever.

Moreover, the elimination of the purchase requirement would mean that over \$3 billion less in stamps would be printed, shipped, stored, issued, redeemed and reconciled each year, cutting administrative costs and possibility for abuse at each stage along this process. Any black-marketing of stamps would also be sharply curtailed due to the reduction of stamps in circulation.

IMPROVING ACCESS TO THOSE MOST IN NEED

Of course, the elimination of the food stamp purchase requirement does far more than improve administration. It also removes a barrier that has kept many of our poor citizens out of the food stamp program -- the need to come up with a lump sum of cash to purchase stamps.

We estimate that over 2.5 million new persons would enter the program if the purchase requirement is eliminated, and that the large bulk of these new participants would be families with gross incomes below the poverty line. We think it is appropriate to place stricter limits on who is and is not eligible for stamps, and then to structure the program in such a way that those we have determined should be eligible for stamps have a greater likelihood of actually being able to get them.

The elimination of the purchase requirement thus jointly accomplishes the goals of simplifying administration, ending all vendor abuse, and increasing the responsiveness of the program to the nation's poor and hungry. This provision is endorsed not only by the Carter Administration, but by the National Governors Conference, the National Council of State Welfare Administrators, and the National Conference of State Legislatures, as well as by many of the major religious denominations in the United States.

What we are thus proposing to do is to restructure the food stamp program by eliminating or reducing benefits to the highest income recipients, and by using the savings to bring into the program more of the lower income recipients.

Our proposal stands as a balanced package. It has a very marginal cost savings in fiscal 1978, and a possible small cost increase -- up to about 2% of total program costs -- in fiscal 1979. It is a fiscally responsible measure that we believe achieves true reform.

I should note that the various aspects of our proposal cannot be divorced from each other. Our income limits and standard deductions reduce costs by over \$400 million a year, and balance off most or all of the cost of providing benefits to the new participants who enter the program due to the elimination of the purchase requirement.

If our income limit and standard deduction proposals are not adopted and higher eligibility and benefit levels are substituted in their place, then the cost of the food stamp program will increase in a manner that is unacceptable to this Administration.

President Carter has personally directed me to inform you that the Administration will not approve any bill that, while eliminating the food stamp purchase requirement, imposes higher income limits and benefit levels and thus increases the cost of our proposal.

Similarly, I should warn that we would also find it unacceptable if our benefit levels are adopted but the purchase requirement is retained. Under such circumstances, a large number of needy families would have to pay increased amounts for their stamps and could be in the position of having to choose between paying a heating bill and buying food stamps for themselves and their children.

Finally, we should note that our proposal involves an extension of the food stamp program for two years. The Administration will shortly issue a major proposal for reform of this nation's welfare system. Consideration of the food stamp program is part of the review on welfare reform now being undertaken in the Administration. The food stamp proposal

we place before you today is designed to clean up and improve food stamp operations. It is consistent with the movement toward welfare reform.

I should like to close by bringing what I am sure the Committee will regard as welcome news. It is the fact that although the President's budget request for fiscal 1978 contained nearly \$5.7 billion for the food stamp program, we now believe this will be unnecessary. Indeed, the Congressional Budget Office and the House and Senate Budget Committees have concluded that the best "current services" estimate for the program in fiscal 1978 is not \$5.7 billion, but something less than \$5.4 billion.

I believe this is significant. It means that the program should cost less in fiscal 1978 than in fiscal 1976 or fiscal 1977. This is largely due to declining unemployment.

